

FDIC State Profile

Fall 2004

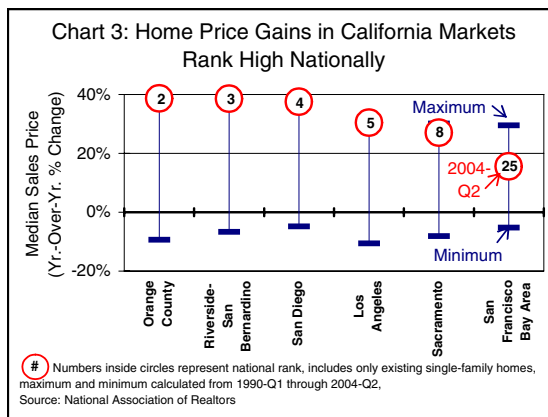
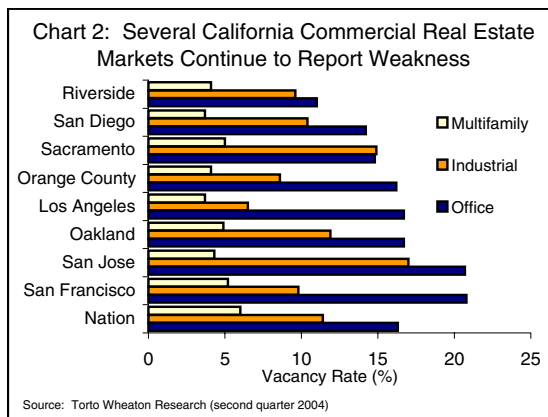
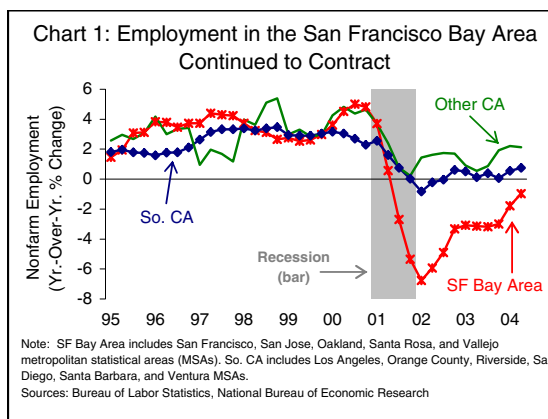
California

Although California is no longer losing jobs, job growth continued to lag the nation, ranking 33rd among the nation's states.

- **Central and rural California**¹ reported the strongest job growth, rising 2.1 percent in second quarter 2004 (See Chart 1). This growth was led by the Merced metropolitan statistical area (MSA), which reported 4.5 percent job growth (second fastest MSA nationwide, behind only Las Vegas, NV).
- In the same period, **Southern California** reported a more moderate 0.8 percent employment growth. The Riverside metro led among area MSAs with 2 percent growth. San Diego reported a solid 1.4 percent job growth rate, while Los Angeles remained in the bottom half of all MSAs nationwide with 0.3 percent job growth.
- Job losses slowed in the tech-dependent **San Francisco Bay Area**, where nonfarm employment contracted 1 percent year-over-year. However, this is a significant improvement over two years ago when job losses amounted to nearly 6 percent. Preliminary data for July 2004 also indicated slight year-over-year gains for the San Francisco and Oakland MSAs.
- Government payrolls have now declined for five consecutive quarters. In second quarter 2004, California reported over 43,000 job losses in the government sector compared to year-ago levels. Given recent state budget decisions, state and local governments may reduce employment levels further.

Despite weak employment growth, California business growth was robust in 2003.

- The number of firms in California grew 4 percent during 2003, much faster than the nationwide average of 0.3 percent. Also, the number of business bankruptcies filed in the state during 2003 declined to the lowest point in over a decade. About 4,500 firms filed for bankruptcy in 2003, a significant drop from the 1991 level.



¹Southern California includes the Los Angeles, Orange County, Riverside, San Diego, Santa Barbara, and Ventura MSAs, and the San Francisco Bay Area is defined to include the Oakland, San Francisco, San Jose, Santa Rosa, and Vallejo MSAs.

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- Improved business conditions were evident in commercial and industrial (C&I) loan growth rates. Among banks and thrifts opened at least three years, the median year-over-year C&I loan growth rate reached almost 11 percent in June 2004. Larger business loans (those with original amounts of more than \$1 million) led the trend, increasing at a median ratio of 13 percent, nearly twice the rate of smaller business loans.

California's office and industrial market fundamentals improved, and commercial real estate (CRE) loan delinquencies declined.

- Office market vacancy rates showed some signs of improvement over the past few quarters, although asking rents were generally lowered to entice new office tenants. Of California's major office markets, conditions remained weak in the **San Francisco** and **San Jose** MSAs (See Chart 2). The vacancy rate in these MSAs exceeded the nation, while the San Francisco and **Oakland** MSAs experienced further declines in asking rents. Northern California industrial markets also continued to report vacancy rates higher than the national average and year-over-year rent declines.
- Although improving, CRE market conditions warrant monitoring because the median ratio of CRE loans-to-Tier 1 capital among California-based insured institutions was 437 percent at mid-year, relatively unchanged from a year-ago level of 442 percent.² Low interest rates have helped CRE loan delinquencies remain at nominal levels among California-based established community institutions.³
- Exposure to construction and development (C&D) loans, traditionally a higher risk loan category, remains high. As of June 30, 2004, California-based insured institutions reported a median exposure to C&D loans of 63 percent of Tier 1 capital, more than double the median ratio reported by insured institutions nationwide. Exposure moderated slightly among institutions headquartered in the San Francisco Bay Area and Southern California.

Several California markets reported record home price appreciation as well as extremely low affordability.

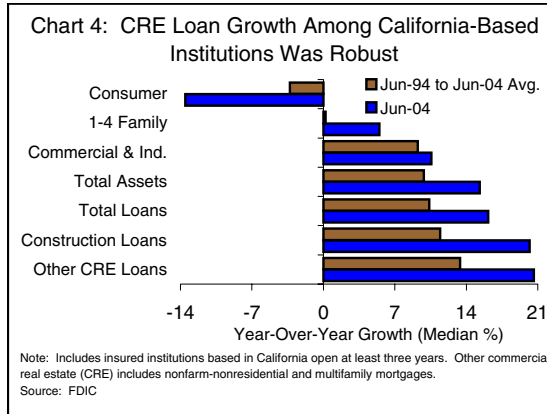
- In second quarter 2004, the Orange County, Riverside, and San Diego MSAs reported the highest home price gains in nearly 15 years, according to data from the **National Association of Realtors** (See Chart 3). In several MSAs, home price growth continued to outpace personal income gains. Only 19 percent of Californians could afford

the median-priced home as of May 2004, according to the **California Association of Realtors**, down significantly from 27 percent in May 2003.

- Favorably, reported delinquencies on home mortgage loans remained minimal.

Quarterly net interest margin compression abated and loan delinquency ratios improved.

- Profitability improved slightly as the year-to-date median return on average assets (ROA) rose to 1.07 percent from the year-earlier figure of 1.04 percent. Year-to-date net interest margins (NIMs) declined over the period, although on a quarterly basis, NIMs were stable relative to first quarter 2004. Modestly lower overhead and provision expense burdens contributed to ROA stability over the one-year period.
- Among insured institutions based in the state, the second quarter 2004 median past-due loan ratio was 0.40 percent, down from a year-earlier figure of 0.68 percent. Past-due and nonaccrual loan ratios may have benefited, in part, from strong loan growth and refinancing activity. Among institutions open at least three years, the median year-over-year increases in construction and other CRE loans exceeded 20 percent, well above 10-year averages for the state (See Chart 4).



²CRE loans include construction, multifamily, and nonfarm-nonresidential mortgages.

³Established community institutions are defined as insured institutions in operation at least 3 years with assets of less than \$5 billion. The definition excludes industrial loan companies and specialty institutions.

California at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	300	319	330	345	361
Total Assets (in thousands)	769,939,071	890,710,735	805,984,735	726,469,980	626,835,069
New Institutions (# < 3 years)	42	40	35	35	35
New Institutions (# < 9 years)	90	80	71	63	56
Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.52	8.94	8.85	8.73	8.71
Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	0.40%	0.68%	0.86%	0.93%	0.82%
Past-Due and Nonaccrual >= 5%	5	14	22	18	17
ALLL/Total Loans (median %)	1.24%	1.35%	1.37%	1.40%	1.38%
ALLL/Noncurrent Loans (median multiple)	3.19	2.55	2.30	2.47	3.29
Net Loan Losses/Loans (aggregate)	0.14%	0.27%	0.36%	0.35%	0.29%
Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	33	36	48	38	29
Percent Unprofitable	11.00%	11.29%	14.55%	11.01%	8.03%
Return on Assets (median %)	1.07	1.04	1.04	1.04	1.07
25th Percentile	0.67	0.64	0.51	0.59	0.62
Net Interest Margin (median %)	4.36%	4.43%	4.61%	4.85%	5.33%
Yield on Earning Assets (median)	5.36%	5.79%	6.51%	8.31%	8.63%
Cost of Funding Earning Assets (median)	0.97%	1.31%	1.82%	3.45%	3.29%
Provisions to Avg. Assets (median)	0.13%	0.16%	0.19%	0.17%	0.18%
Noninterest Income to Avg. Assets (median)	0.62%	0.70%	0.67%	0.67%	0.69%
Overhead to Avg. Assets (median)	3.35%	3.41%	3.51%	3.61%	3.86%
Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	82.70%	79.42%	80.53%	78.55%	76.93%
Loans to Assets (median %)	68.44%	67.61%	68.30%	67.41%	66.49%
Brokered Deposits (# of Institutions)	97	105	96	92	83
Bro. Deps./Assets (median for above inst.)	3.09%	2.87%	3.51%	3.05%	2.83%
Noncore Funding to Assets (median)	19.92%	19.63%	21.21%	21.35%	19.70%
Core Funding to Assets (median)	66.51%	65.26%	66.01%	65.35%	67.75%
Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	155	154	157	166	183
National	74	81	81	82	82
State Member	35	46	50	52	50
S&L	11	12	13	15	16
Savings Bank	25	26	29	30	30
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Los Angeles-Long Beach CA PMSA	81	94,943,818	27.00%	12.33%	
San Diego CA	34	21,297,269	11.33%	2.77%	
Orange County CA PMSA	28	47,620,049	9.33%	6.18%	
San Francisco CA PMSA	28	190,392,597	9.33%	24.73%	
Riverside-San Bernardino CA PMSA	20	10,734,825	6.67%	1.39%	
Oakland CA PMSA	13	99,117,468	4.33%	12.87%	
Sacramento CA PMSA	13	5,046,155	4.33%	0.66%	
Stockton-Lodi CA	11	251,960,020	3.67%	32.72%	
Santa Barbara-Santa Maria-Lompoc CA	7	9,194,192	2.33%	1.19%	
San Luis Obispo-Atascadero-Paso Robles CA	7	3,598,443	2.33%	0.47%	
All Other MSAs	46	29,682,224	3.86%	0.18%	
No MSA	12	6,352,011	4.00%	1.69%	